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September 25, 2000

**RULES PROCESSING TEAM**  
**OCT 6 2000**

Department of the Interior  
Minerals Management Service  
Mail Stop 4024  
381 Elden Street  
Herndon, Virginia 20170-4814

Attention: Rules Processing Team

Dear Sir or Madam:

The National Ocean Industries Association (NOIA) welcomes the opportunity to comment on the proposed rule that outlines how the agency may issue leases after November 2000 with royalty suspension. The proposed rule, along with extensive introductory material, was published in the *Federal Register* on September 14, 2000 beginning at page 55476.

NOIA is a national trade association that represents roughly 280 companies that are engaged in all aspects of exploring for and producing crude oil and natural gas from the nation's Outer Continental Shelf. The evolution of the deep-water frontier in the Gulf of Mexico since the passage of the Deep Water Royalty Relief Act (DWRRA) has been the single most exciting and rewarding development in the U.S. offshore in many years. It has benefited consumers, producers, job seekers and taxpayers alike. The challenge faced by the federal government and the petroleum industry is to work together to fashion a deep-water royalty policy that will be fair to all interested parties and will sustain the successes of the recent past.

The commentary provided with the proposed rule is broken into five main sections: Future Royalty Suspensions; Lease-Based Royalty Suspension; Rental Payments; Relief Suspension During High Prices and Change to Royalty Suspension Policy for Eligible Leases. Each of these sections concludes with one or more questions on which you seek comment.

Most of those questions require "real-world" experience in analyzing and evaluating the economics of a variety of deep-water prospects and projects. Because the NOIA staff lacks that type of experience, we have assembled a large working group that involves producers of all sizes. That group is organized

around four sub-groups including: ultra-deep water (1600 meters and greater); process simplification; deep-water (200-1600 meters) and shelf or shallow-water royalty policy. Because these groups do possess the skills and experience to comment on the above-mentioned questions, we have parceled out the questions to those best able and most willing to formulate comments. We expect to file a compilation of comments on your questions under separate cover.

Proceeding in this way allows industry to be as responsive as possible and allows NOIA to confine its comment to general principals that we believe should be borne in mind as we pursue this process to completion. We expect that a number of individual companies will furnish comments as well. It is worth noting that API, IPAA, USOGA and DPC have joined us in this effort from the outset.

*Future Royalty Suspensions:* The proposed rule is a little like being handed a photograph and specifications for a new automobile but not its price. Obviously, a future investment decision in the deep-water Gulf of Mexico must await the receipt of the whole picture. We appreciate the need for additional analysis before coming to conclusion about appropriate suspension volumes. We hope to have the opportunity to participate with you in this process as we have in the past. We believe that the record of the last 18 months or so clearly demonstrates that both the agency and petroleum industry benefit from working together.

We believe that whatever suspension volumes are finally decided on, they should be grounded on sound data and analysis. While some may take exception to the end result in this area, objections should be muted if the logic and rationale are clearly understood by all.

We further believe that leaving the royalty suspension volumes in place for a minimum of three years will provide operators with some measure of the certainty required for them to plan their deep-water strategies. This also affords MMS an opportunity to examine how well the program is working over the span of at least six Gulf of Mexico lease sales. This kind of evaluation would be impossible if deep-water royalty policy changes on a year-to-year basis, or worse, on a sale-by-sale basis. Some may argue for a longer "certainty period" but directionally we think you are on the right path.

At the risk of being repetitive, as you begin to consider what to do at the expiration of the initial three-year period, we urge you to involve industry in your deliberations at the earliest possible moment.

*Lease-Based Royalty Suspension:* At first blush, it appeared to us that offering suspension volumes on a lease-by-lease basis rather than on a field-by-field basis might simplify and improve the process. However, it now appears that some operators believe that the lease-by-lease approach might be fraught with more rather than fewer problems. At this point, we can only urge you to examine

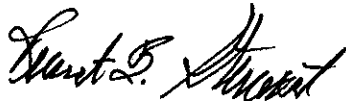
closely the collective comments that we will provide on this topic as well as the individual comments of producers.

*Rental Payments:* We have reviewed the Evaluation Report issued in March of last year and understand the rationale for imposing a holding fee until royalty-bearing production begins. No offshore investor is anxious to see costs increase. However, in conversations with a small sample of operators we get the sense that they do not consider this change a major obstacle to future deep-water investment. It seems that in the context of the many millions it takes to successfully develop a deep-water prospect, this proposed change in policy is not seen as a "deal-breaker." Bear in mind that these views are based on a very small sample of our member-operators and you may hear differing points of view when you review the comments of individual companies.

In closing, we want to again thank MMS for including industry in the process of thinking through where the deep-water royalty policy should go following the expiration of Section 304 of DWRRA. There are certain basic principles that our members will be looking for in any new policy, such as the framework currently being proposed. First, certainty and stability: Planning for major OCS investments is a long-term process that becomes nearly impossible if the "ground-rules" are constantly changing. Second: Predictability and transparency: Operators considering making an application for supplemental deep-water royalty relief should be able to do their own analysis and be able to predict with fair accuracy whether MMS would approve that application. Third: Future consideration of whether incentives are called for in other areas of the Gulf of Mexico outside of the deep-water province. Fourth: Continuation of the inclusive process that has carved out a role for industry in consideration of these policies.

We thank you for your consideration of our views.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert B. Stewart". The signature is fluid and cursive, with a large initial "R" and "S".

Robert B. Stewart